

BRAZILIAN TRACTION
LIGHT and POWER
COMPANY
LIMITED

1942

THIRTIETH ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 1942

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Brazilian Traction, Light and Power Company, Limited.

(Incorporated under the Laws of the Dominion of Canada.)

AUTHORIZED SHARE CAPITAL.

ORDINARY SHARES —7,600,000 shares of No Par Value, subject to increase up to a total of 7,933,333 shares of No Par Value by conversion of Preference Shares.
PREFERENCE SHARES—100,000 shares of the Par Value of \$100 each, convertible into Ordinary Shares of No Par Value on the basis of 3 Preference Shares for 10 Ordinary Shares. (Approximately 96% of these shares have been converted at the date of this report.)

Board of Directors.

SIR HERBERT COUZENS, K.B.E., *President.*

H. MALCOLM HUBBARD, *Vice-President.*

THE RIGHT HON. SIR THOMAS WHITE, G.C.M.G.

S. G. CROWELL, K.C.

JOHN DAVIDSON.

THE HON. G. HOWARD FERGUSON.

JAMES A. ECCLES.

THE RIGHT HON. THE VISCOUNT GREENWOOD, P.C.

COLONEL WALTER GOW, K.C., *Vice-President.*

A. W. K. BILLINGS, *Vice-President.*

SIR ALEXANDER MACKENZIE, K.B.E.

A. P. HOET.

S. H. LOGAN.

C. D. MAGEE.

DAVID SMITH.

Secretary.

D. H. CROMAR

Treasurer.

G. R. F. TROOP

Asst. to the President.

F. A. SCHULMAN

Asst. Secretary. (LONDON)

W. D. HOOPER

Bankers.

THE CANADIAN BANK OF COMMERCE,
TORONTO, NEW YORK AND LONDON.

LLOYDS BANK LIMITED, LONDON.

THE BANK OF SCOTLAND,
EDINBURGH AND LONDON.

Solicitors.

BLAKE, ANGLIN, OSLER & CASSELS, TORONTO.

Auditors.

CLARKSON, GORDON, DILWORTH & NASH, TORONTO.

Offices.

HEAD OFFICE - - - - - 25 KING STREET WEST, TORONTO, CANADA.

LONDON AGENTS - - - - - CANADIAN & GENERAL FINANCE CO., LIMITED.

TEMPORARY WAR ADDRESS: H. MALCOLM HUBBARD, REPRESENTATIVE,

99, THE DRIVE,

HOVE, SUSSEX, ENGLAND.

Brazilian Traction, Light and Power Company, Limited.

THIRTIETH ANNUAL REPORT

OF THE

BOARD OF DIRECTORS TO THE SHAREHOLDERS

For the Year ended 31st December, 1942.

THE Board of Directors beg to submit their Thirtieth Annual Report and Accounts, together with a report by the President on the enterprises in Brazil.

Net Revenue and Dividends Paid—1942

The revenue of the company resulting from the year's operations expressed in terms of United States currency was as follows:

Revenue from operating companies	- - - - -	\$16,449,015.61	
Interest on investments and other miscellaneous income	- - - - -	179,449.81	
			\$16,628,465.42
General and administration expenses	- - - - -	\$ 262,375.90	
Provision for general amortization	- - - - -	300,000.00	
			562,375.90
Net Revenue	- - - - -		\$16,066,089.52
Less: Four Quarterly Dividends on Preference Shares paid in Canadian funds			
\$23,604.00—Equivalent in United States dollars	- - - - -	\$ 21,479.64	
Dividends on Ordinary Shares paid in Canadian funds:—			
18th July, 1942, at 40 cents per share	- - - - -	\$ 2,810,564.44	
15th December, 1942, at 60 cents per share	- - - - -	4,215,862.81	
		\$ 7,026,427.25	
Equivalent in United States dollars	- - - - -	6,394,048.80	6,415,528.44
Balance	- - - - -		\$ 9,650,561.08

The net revenue shown in the above statement (less the dividends paid on the preference shares) is equivalent to approximately \$2.28¼ per share on the outstanding ordinary share capital at the end of the year.

Comparative Statement of Earnings—1939-1942

The following comparative statement shows the combined earnings and charges of the operating companies and of this company, and the resulting net income of this company for the past four years.

EXCLUDING INTER-COMPANY ITEMS.	Year ended 31st December			
	1939.	1940.	1941.	1942.
Gross earnings from operation - - - - -	\$37,199,350	\$37,737,986	\$42,770,608	\$46,570,250
Miscellaneous revenue of operating companies - - - - -	314,390	399,733	655,488	1,270,243
Total Revenue of operating companies - - - - -	\$37,513,740	\$38,137,719	\$43,426,096	\$47,840,493
Less: Operating expenses - - - - -	\$17,864,752	\$18,601,618	\$19,736,952	\$21,710,503
Charge for depreciation and renewals - - - - -	6,929,253	6,951,242	7,197,250	6,839,512
Bond interest - - - - -	1,736,361	1,534,048	1,543,711	1,537,610
Sinking funds and other charges - - - - -	616,077	595,420	624,385	603,852
Provision for general amortization - - - - -	700,000	700,000	700,000	700,000
Total Charges of operating companies (excluding interest on advances from Brazilian Traction, Light & Power Company, Limited) - - - - -	\$27,846,443	\$28,382,328	\$29,802,298	\$31,391,477
Balance being revenue to Brazilian Traction, Light & Power Company, Limited - - - - -	\$ 9,667,297	\$ 9,755,391	\$13,623,798	\$16,449,016
Interest on temporary investments - - - - -	\$ 74,883	\$ 71,530	\$ 76,549	\$ 104,206
Miscellaneous income - - - - -	35,770	22,104	29,269	75,244
	\$ 110,653	\$ 93,634	\$ 105,818	\$ 179,450
Gross revenue, Brazilian Traction, Light & Power Company, Limited - - - - -	\$ 9,777,950	\$ 9,849,025	\$13,729,616	\$16,628,466
General and administration expenses - - - - -	\$ 311,842	\$ 289,218	\$ 280,932	\$ 262,376
Provision for general amortization - - - - -	300,000	300,000	300,000	300,000
Total charges, Brazilian Traction, Light & Power Company, Limited - - - - -	\$ 611,842	\$ 589,218	\$ 580,932	\$ 562,376
Net revenue, Brazilian Traction, Light & Power Company, Limited - - - - -	\$ 9,166,108	\$ 9,259,807	\$13,148,684	\$16,066,090

As will be seen by reference to the statistics and charts appended to this report, increases in the volume of business were again recorded during 1942 in all services of the operating companies with the exception of water and gas. In the case of the latter, production and sales were restricted as a result of rationing due to fuel shortage. While net revenue shows an increase when compared with the previous year, it should be borne in mind that, due to war conditions, operating expenses have increased, particularly in respect of the cost of materials and coal shipped to Brazil.

Items Written Off

With the concurrence of the Company's Auditors a change has been made in the Consolidated Balance Sheet which at 31st December, 1941, included under the general heading of Capital Assets the cost of (a) Rights, Franchises, Contracts, Goodwill, etc., (b) Discount and Issue Expenses on Bonds and Debentures, and (c) Premium paid on shares of Subsidiary and Sub-Subsidiary Companies acquired, amounting in the aggregate to approximately \$101,900,000. These items have been carried in the accounts for

many years, offset in large measure by General Reserves. The advisability of finally writing them off has been under consideration over a long period. Your Directors decided that as no useful purpose would be served by continuing to retain the items in question in the Consolidated Balance Sheet, they should be eliminated therefrom as at 31st December, 1942. To accomplish this an amount of \$35,000,000 was transferred from Profit and Loss Surplus Account and added to General Reserve Account and the items in question written off against the latter.

Brazilian Exchange—1942

Exchange quotations at the close of 1942 showed very little change when compared with those at the close of 1941. General control of exchange through the Bank of Brazil continued in effect. The exchange situation during the period showed progressive improvement which has continued into 1943.

Effective 1st November, 1942, a new monetary unit, the "cruzeiro," was created, having the same value as the "milreis" which it replaced. Thus, what was formerly known as 100 "milreis" or 100\$000 is now described as 100 "cruzeiros" or Cr\$100,00.

On 31st December, 1942, the closing rates in the free market (where purchases are limited to payment for imports) for sight drafts on New York and London, respectively, were 5.09 cents and 3-1/64d. (sterling area), which were the same as those in effect at the close of 1941, these rates being exclusive of the 5% remittance tax. In the special free market (for dealings in letters of credit, etc., and general remittances which may be permitted by the Bank of Brazil) the corresponding rates were 4.88 cents and 3-1/64d. (sterling area) as compared with 4.85 cents and 3-1/64d. (sterling area) at the close of 1941; also exclusive of tax.

The current assets and liabilities of the operating companies in Brazil were valued at the end of the year in dollars at the closing sight rate on the special free market for exchange on New York. The combined earnings in dollars of the operating companies, which were published monthly and appear in total in the tabulated statement on page 3 of this report, represent cruzeiros calculated at the officially published average sight rates on the special free market for exchange on New York, due provision being made for the remittance tax.

Settlement of Income Tax Dispute

In last year's report reference was made to various income tax questions which had arisen over a period of years between the operating subsidiaries and the authorities in Brazil. At the end of December the Company was able to announce through the press that the dispute had been finally and amicably adjusted. As a result of the arbitration mentioned in last year's

report and the negotiations consequent thereon, to which the President of the Republic lent his good offices, the amount due was agreed at a sum in local currency equivalent to approximately \$5,400,000 (U.S.) as against an amount claimed of approximately \$7,800,000 (U.S.). The agreed amount was paid and the liability finally discharged on 5th January, 1943. The result is satisfactory not only by reason of the substantial reduction in the amount claimed but also because the dispute, which was a very contentious and long standing one, has been adjusted with mutual good will on the part of all concerned. In announcing the final settlement the Brazilian Minister of Finance made a public declaration and said that there had been regularized "a question of capital importance to the Federal Exchequer and of no less interest to the Company whose spirit of collaboration with the public powers—as always shown in the several phases of the negotiations and which made possible the success of the situation—deserves to be registered."

Capital Expenditure and Depreciation

The cash expenditure on the properties of the operating companies during the year amounted to approximately \$9,200,000, representing additions, improvements and replacements essential to the proper carrying on of the services.

Out of the year's revenue a total of \$6,839,512 has been provided by the operating companies for depreciation of their physical properties. This amount is a provisional adjustment pending the completion of an extensive study of the subject now being made in Brazil. As in previous years a total of \$1,000,000 has been set aside for general amortization.

Staff

The Company and its subsidiaries sustained a great loss on the seventh of September, 1942, through the death of Mr. A. W. Adams, their faithful and efficient Secretary and Treasurer, whose association with the enterprise extended over a period of 32 years.

Consequent upon his demise the following staff appointments have been made—

Secretary - - - - -	Mr. D. H. Cromar.
Treasurer - - - - -	Mr. G. R. F. Troop, C.A.
Assistant to the President - -	Mr. F. A. Schulman.

Your directors desire to express their continued sense of appreciation of the loyal and efficient services rendered by all of the executive officers, heads of departments and other officials of the operating companies in Brazil.

By Order of the Board,

TORONTO, CANADA,
May 25th, 1943.

D. H. CROMAR,
Secretary.

REPORT OF THE PRESIDENT.

*To the Board of Directors of Brazilian Traction,
Light and Power Company, Limited.*

All services show steady growth during the year 1942 with the exception of (a) water, where there is a fractional decrease due to reduced sales to shipping and (b) gas, which was rationed by order of the Authorities consequent on inability to obtain sufficient fuel to maintain an unrestricted supply. The abnormal increase in riding on the Companies' tramways system in Brazil, as elsewhere, to a considerable extent, however, offset the effect of the gas shortage.

The result of the year's operations as a whole shows a substantial improvement over that obtained in 1941, but still falls short of the Company's best year.

Probably 1942 will be longest remembered as the year in which Brazil, after severing relations with the Axis in January, on August 22nd—following attacks on coastal shipping—declared that a state of war existed with Germany and Italy, and formally joined the Allied Powers.

Considering the year's operations under services—

ELECTRIC LIGHT AND POWER.

Generating Plants—Serra do Cubatão Development.

In connection with the Serra plant which serves the São Paulo System, work was put in hand on the second tunnel and surge tank at the top of the Serra and it is hoped that the same will be completed before the dry season of 1944. The effect of this work will be to improve the water supply to the existing units and increase their aggregate capacity by 55,000 KW, at the same time providing for future units as and when required and obtainable.

Since the end of the year an application has been made to the Authorities for priority for an additional unit with accessories for the Serra Plant.

The Rio Grande, Guarapiranga and Pinheiros Rectification canals have progressed slowly due to war conditions, the number of dredges, rock breakers and other equipment in operation being reduced to about one third.

During the year about 839,000 cubic yards of earth and 1,800 cubic yards of rock were excavated.

The Retiro rack structure for separating the floating vegetation in these canals was completed.

The delivery of the second pump for the Pedreira pumping station being interfered with as a result of the war, the 17,000 HP motor for driving the same was installed and is operated temporarily as a synchronous condenser, thus being usefully employed.

Lages Modernization.

The work of modernization of the Lages Plant serving the Rio System continued satisfactorily having regard to the difficulties and delays in obtaining materials.

The second unit—"B"—referred to in previous reports, was put into regular service in July.

A 1,500 KW House Service unit was completed during the year and commenced to operate regularly in March 1943.

Application has been made for the necessary priority rating for the purchase of the third unit—"C"—also of 35,000 KW rating, and this is still under discussion with the competent Authorities in Brazil and the United States.

The raising of the Lages dam to nearly double its previous height and the driving of the necessary tunnels and their intake connections through the old dam is proceeding, though it is anticipated that the completion of the work will require another year.

The raising of the water to 415 metres above sea level, expected to be realized during the present year (1943), permits an increase of 250 per cent. in the volume of water stored in the reservoir and an increase in the firm capacity of the Rio System from 152,000 KW to 194,800 KW. One penstock of the old units was tested magnetically and strengthened by welding to be suitable for the new conditions. The corresponding work of strengthening the old feeders is partially completed.

Distribution System.

Extensions during the year were made to the distribution systems as shown in the following tabulation:—

	Added during year	Total at end of year
Transmission Lines - - - - -	30.66 miles	2,082.92 miles
Overhead Distribution Lines - - - -	1,003.77 "	32,066.90 "
Transformer Capacity - - - - -	108,499 KVA.	1,719,327 KVA.
Poles Set - - - - -	3,835	224,638
Duct Lines - - - - -	85.38 miles	1,816.01 miles
Underground Cables - - - - -	56.58 "	2,076.27 "

During the year 885 and 186 lamps were added to the public illumination systems in the Federal District of Rio de Janeiro and the city of São Paulo, respectively, bringing the total units connected at the end of the year to 37,454 and 21,313, respectively.

The growth of load during the year was somewhat erratic, varying from month to month. This was partly due to inequalities in the demands of other supply companies operating in adjacent areas, the service to which was given by orders of the National Council of Waters and Electrical Energy, as referred to in last year's

report. Other contributory factors were the direct and indirect effect of the shortage of fuel and oil, and the restriction of importations generally as a consequence of the war.

Among the contracts for the supply of electrical energy signed during the year, the following are the most important:—

- (a) Supply to the new steel mill at Volta Redonda in the State of Rio de Janeiro signed on June 19th last, the negotiations for which were mentioned in last year's report;
- (b) Supply for the electrification of a portion of the Sorocabana Railway in the State of São Paulo owned and operated by the Government of that State. This contract was signed on October 23rd last.

Discussions took place during the year, and are continuing, regarding the establishment of Works for the production of aluminum in the area served by the São Paulo Companies. This is regarded by the Authorities as a factor in the war effort and a key industry, ranking in importance with the steel mills now in course of construction at Volta Redonda. This whole matter hinges on the question of importation of the necessary material and machinery; bauxite of good grade being available in large quantities at convenient points.

The growth in the connected load of the Rio and São Paulo systems during the year was substantially greater than in 1941, which should be reflected in the present year's output.

The textile industry, which is one of the most important groups served by the Companies, was busily engaged throughout the year in production for war purposes and also for the export market, which latter has been very successfully built up and rapidly expanded since the outbreak of war.

The partial black-out restrictions which were effective for some time in Rio de Janeiro and Santos were removed toward the end of the year.

Tramways.

TRANSPORTATION.

On the last day of the year Decree-law 5162 was promulgated. The Decree authorizes the Prefect of the Federal District to enter into negotiations with the Company for the revision of the present contracts with a view to consolidating and amplifying the existing tramway services on certain defined bases including a fair return on the capital employed in the service. The revision, which will undoubtedly take some considerable time to work out, can only become effective when general conditions are again normal. If a solution is found, satisfactory to the Prefect and the Company, this will then be reported to the Federal Government for further action. In the meantime, wages are to be increased, compensation for which is provided by an adjustment of the fares in various specific sections of the system where the rate is increased from 10 to 20 centavos. On the 1st May 1943, the new scale of wages became effective, the fares being modified on the following day.

It is hoped that the objective set forth in the Decree will be realized and result in an improved service with the capital employed therein remunerated at a reasonable rate, thus eliminating the anomalies which have existed for so many years.

In the city of São Paulo there is no change in the situation outlined in last year's report except that some additional rolling stock—to the extent of the present possibilities—is under construction in the Company's shops to meet the needs which have arisen due to the war.

As a result of the gasoline shortage, riding on the tramways in Brazil, as elsewhere, has increased greatly. Various steps have been taken, such as the reduction of stopping places, etc., along lines put into force throughout North America to cope with a similar situation. Conditions have been substantially improved thereby, but until materials are freely available the service is necessarily congested in spite of the splendid co-operation of the vast majority of the users of such service.

Buses.

The double-deck buses were changed to single-deckers early in the year, the former type of vehicle never having proved popular in Brazil or elsewhere in South America. The chassis were reconditioned and equipped for operation as "gasogenios" as they are known in Brazil (gas produced from charcoal), although for a time they could not be put in service due to shortage of charcoal.

SHOPS.

The Companies' shops have more than ever proved their great value. While the volume of work turned out shows a slight decrease, the effort to produce such volume was much greater. Various additional lines of salvage and improvisation were developed, the Companies' efforts in this direction being favourably commented on in an article published in the "Foreign Commerce Weekly" issued by the United States Department of Commerce.

GAS.

The difficulties in obtaining sufficient supplies of fuel to continue to furnish an unrestricted service of gas to consumers, to which reference was made in last year's report, became progressively worse and the Authorities decided to ration the service. Rationing was made effective in Rio from July 1st, followed in São Paulo and Santos in September and October, respectively.

Details of the schemes vary in the different cities though the objective aimed at is the same in all cases, the ration being set at 80% of normal consumption, which percentage has continued in effect and unchanged to date. Experience shows that about 75% of the consumers—representing about three-quarters of the total consumption—use substantially less than the ration set, but there are signs of a tendency to increase gradually the amount used. Perhaps the best and simplest means of judging the general effectiveness of rationing may be obtained from the figures for Rio where it was in force for the last six months of the year, during which

period the output of gas from the works shows a reduction of 28% when compared with the corresponding output for 1941. The reduced output and the consequent reduction in by-products has seriously affected, and will continue to affect, the revenue of the Companies so long as rationing remains in force. In addition to this loss of revenue, operating expenses show in a very marked degree the effect of the increased cost of labour and all materials, especially fuel.

Some measure of relief from the increased price of coal is obtained in Rio from the variation in the sale price of gas based on the cost of coal to the Company, authorized by the Federal Government in September 1940. In the cities of São Paulo and Santos, however, in spite of repeated representations to the Authorities, no relief has been given. The facts speak for themselves as, in addition to the increased cost of labour and other materials used in the production of gas, the cost of coal, which between the outbreak of the present war and the beginning of 1942, had already increased by more than 86% in the case of imported coal and 46% in the case of national coal, showed further increases of 38% and 32% respectively during 1942. These figures reflect the heavy increase in freight charges as they are based on cost of coal delivered at the works.

Additions made during the year include the completion of the five million cubic feet carburetted water gas plant in Rio, commenced in 1940. Water cooling towers of reinforced concrete frames with brick panels were also completed and put in service in the Rio works.

On the Rio distribution system four additional high pressure holders were completed and put in service at Leblon.

In São Paulo an exhaustor of five thousand cubic metre capacity was reinstalled at the works and a new booster and station meter added during the year.

In Santos a centrifugal washer with a capacity of one million cubic feet was completed and additional property adjacent to the gas works was purchased.

TELEPHONES.

The growth of the business has been hampered by lack of facilities consequent on inability to obtain the necessary equipment as a result of war conditions. Particularly is this the case in the city of São Paulo. The priority rating obtained in 1941 for the materials required to expand the service, in accordance with the agreement of 25th August, 1941, between the city of São Paulo and the Company, did not give the results hoped for. After protracted negotiations another rating was secured in October, 1942, which is working out more satisfactorily, several shipments having already been made. Completion of the orders for materials and of the work of installation, will unfortunately be delayed due to causes beyond the Company's control.

The equipment for amplifying facilities in the Federal District of Rio de Janeiro ordered early in 1941 has been also considerably delayed as a result of war conditions. Judging from the amount of equipment already received and in progress, it is

hoped that additional facilities will be available, to the extent necessary to relieve the situation, during the present year.

In spite of difficulties, the various buildings required to house the equipment are well in hand and should be available as required.

The automatic equipment for Petropolis, ordered early in 1941 and referred to in the annual report for that year, has been received. Pending its receipt, however, it was necessary to take steps to relieve the situation which had arisen and, fortunately, by diversion of certain other equipment this was made possible. Part of the new equipment was in service by the end of the year.

Following protracted discussions an agreement dated 31st December, 1942, was completed between the State of Rio de Janeiro and the Brazilian Telephone Company whereby the basis used for calculating the toll service charges was changed to the block system, being that previously in force in all other territory served by the Company. Reduced rates for night service were also provided for under the agreement; also certain extensions of the toll service.

In connection with toll service in the State of São Paulo, the main concession granted by the Government of that State to the Company for such service expired on 4th December, 1942. Decree 13145 dated 23rd December, 1942, however, provides that concessions, authorizations or licences for intermunicipal service which expired on or prior to that date are extended to 31st December, 1943. In the meantime, negotiations are proceeding in the endeavour to reach a satisfactory basis which will enable the Company to continue to render service to a large portion of that State as it has done for many years past.

Federal Decree-law 5144 dated December 29th, 1942, indicates the general lines to be followed by the States throughout Brazil when exercising their powers to legislate in connection with the subject of telephone communication. These, if too rigidly interpreted, might well work hardship on companies operating under State concessions, and militate against the expansion of the services required to meet the legitimate needs of the public.

FOREIGN TRADE OF BRAZIL.

The official publication of exports and imports ceased at the end of April. The balance of trade for the first four months of the year shows an improvement of 128% over that for the like period of 1941. Unofficial figures published in Brazil and abroad all tend to show an even greater percentage increase for the entire year.

MATERIALS AND SUPPLIES.

The difficulty of obtaining sufficient materials and supplies not only continued but increased during 1942 and constitutes a major problem, notwithstanding the continued development by the staff of methods of salvage, improvisation, adaptation and use of substitutes, mentioned at some length in the last report as an important factor in keeping requirements to the lowest possible limit.

A further step with the same objective—necessarily demanded of the industry generally by the requirements of the Allied war effort—is the reduction of reserves in generating plant, the elimination of duplicate means of supply and so on. This is a departure from the long established policy of the Company, made, though with regret, owing to the imperative necessities of the situation.

In this connection it should be mentioned that the competent Authorities in Brazil at the present time are reviewing the position relative to the supply of electrical energy, having regard to the possible rationing of the service, which may prove to be necessary, in order to ensure that existing facilities will be utilized to the best advantage.

COST OF SERVICE.

In addition to the increased difficulty in obtaining materials and the unavoidable increase in costs resulting therefrom, various wage increases and adjustments were made from time to time during the year which, though necessary to meet changing conditions, have added materially to the cost of serving the public.

GENERAL.

With a view to mobilizing the resources of the country and using them to the best advantage, Decree-law 4750 was issued on September 28th, 1942. This Decree provides for the appointment of a Co-ordinator of Economic Mobilization responsible directly to the President of the Republic. Very wide powers are given to the Co-ordinator, including the fixing of prices and conditions of sale of commodities, the direction of industry in general, the control of importations and exportations, etc., etc. The present incumbent is Minister João Alberto Lins de Barros formerly representing the Brazilian Government in Ottawa.

Employees receive half pay while mobilized, in addition to which their dependants receive assistance under Decree-law 4830 of October 15th, 1942, which created the “Legião Brasileira de Assistência”,—an institution to assist the families of men called to the colours,—supported by equal contributions from the Federal Government, employees and employers. The combined cost to the Companies of these two plans as at the end of 1942, is estimated at \$100,000 per annum. This figure is mentioned in order to gauge the amount involved, with the realization that contributions of this kind are in a class by themselves and generally regarded with sympathetic consideration, especially by those with knowledge of conditions in Brazil.

In general, costs have already increased, the full effects of which are not reflected in the year's results. Further increases are to be expected.

The untimely death of Mr. A. W. Adams in September was deeply deplored by the staffs of the Companies with which he had been associated for many years. We all cherish the memory of our valued colleague.

May 25th, 1943.

H. H. COUZENS,
President.

AUDITORS' REPORT.

To the Shareholders of Brazilian Traction, Light and Power Company, Limited:

We have audited the Head Office accounts of Brazilian Traction, Light and Power Company, Limited, The Rio de Janeiro Tramway, Light and Power Company, Limited (and its subsidiary, Brazilian Telephone Company), The São Paulo Tramway, Light and Power Company, Limited, São Paulo Electric Company, Limited (and its subsidiary, The San Paulo Gas Company, Limited), The City of Santos Improvements Company, Limited and Brazilian Hydro Electric Company, Limited, and have examined the certified reports and statements of other Chartered Accountants covering the capital and revenue accounts and provisions for depreciation in Brazil for the year ended 31st December, 1942. We have obtained all the information and explanations which we have required.

During the year an amount of \$101,899,497.40 previously included in the consolidated balance sheet was written off against the companies' general reserves in the manner described on pages 3 and 4 of the Annual Report of the Board of Directors.

The net revenues of the operating companies owned or controlled by Brazilian Traction, Light and Power Company, Limited, after provision for or payment of all losses, expenses and charges including depreciation, bond interest and sinking funds, as provided under contracts with them are payable to and are included in the profit and loss account of Brazilian Traction, Light and Power Company, Limited.

Subject to the foregoing we report that, in our opinion, the attached Consolidated Balance Sheet, Profit and Loss Account and Profit and Loss Surplus Account are properly drawn up so as to exhibit a true and correct view of the state of the combined companies' affairs at 31st December, 1942, and of their operations for the year ended on that date, according to the best of our information, the explanations given to us, the certified reports of the auditors in Brazil and as disclosed by the books of the companies.

CLARKSON, GORDON, DILWORTH AND NASH, }
Chartered Accountants, } *Auditors.*

Toronto, May 22nd, 1943.

CONSOLIDATED BALANCE SHEET OF

BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED,

THE RIO DE JANEIRO TRAMWAY, LIGHT AND POWER COMPANY, LIMITED,
(and its Subsidiary, BRAZILIAN TELEPHONE COMPANY),

THE SÃO PAULO TRAMWAY, LIGHT AND POWER COMPANY, LIMITED,

SÃO PAULO ELECTRIC COMPANY, LIMITED,
(and its Subsidiary, THE SAN PAULO GAS COMPANY, LIMITED),

THE CITY OF SANTOS IMPROVEMENTS COMPANY, LIMITED and

BRAZILIAN HYDRO ELECTRIC COMPANY, LIMITED.

31st December, 1942.

EXPRESSED IN TERMS OF UNITED STATES CURRENCY.

Capital Account—

Properties, Plant and Equipment, Construction Expenditure, at cost, including interest during construction, etc.	\$291,581,042.26
Cost of Shares and Securities of and Advances to Companies owned or controlled by Subsidiary Companies	30,955,231.09

\$322,536,273.35

Sinking Fund Holdings, at cost—

São Paulo Electric Company, Limited, First Mortgage Bonds	3,195,237.48
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Current Assets—

Stores in hand and in transit, including construction material	\$ 13,564,524.72
As determined and certified by the management, at prices not exceeding cost.	

Sundry Debtors and Debit Balances after provision for doubtful accounts	15,430,012.89
This account includes bonds of subsidiary companies held for sinking fund purposes and promissory notes of the Bank of Brazil in dollars and sterling received under the plan formulated in 1940 by authorities in Brazil for liquidation over a period of 4 years of certain milreis accumulations awaiting remittance.	

Temporary Investments in Securities of the Dominion of Canada and the United States of Brazil at book value (Market value \$9,512,302.74)	9,489,972.27
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Cash, including Brazilian currency	30,302,844.27
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68,847,354.15

Note—The current assets and liabilities of the operating companies in Brazil were valued for the purposes of this balance sheet at the end of the year in dollars at the closing sight rate on the special free market for exchange on New York.

The current assets and liabilities in Canadian dollars and in sterling were valued for the purposes of this balance sheet at the end of the year at the official rates for United States dollars.

The transfer of cash balances is subject to the exchange regulations in Brazil, Canada and the United Kingdom as the case may be.

\$394,578,864.98

LIABILITIES.

Capital Stock—issued and outstanding—		
7,029,894 Ordinary Shares of no par value	- - - - -	\$179,358,248.97
3,934 Six per cent. Cumulative Preference Shares of the par value of \$100 each	- - - - -	393,400.00
In addition to the above, 16,011 Preference Shares have been transferred to the Secretary on behalf of the Company in respect of the conversion of 96,066 Preference Shares into Ordinary Shares.		
Shares of Subsidiary and Sub-subsidiary Companies outstanding—		
31 Ordinary Shares of the par value of \$100 each	- - - - -	\$ 3,100.00
14,543 Six per cent. Cumulative Preference Shares of £10 each (£145,430)	- - - - -	707,759.33
200,000 Six per cent. Cumulative Preference Shares of £1 each (£200,000)	- - - - -	973,333.33
1,684,192.66		
Total Capital Stock outstanding taken for the purposes of this balance sheet in United States dollars at par of exchange for Canadian Dollars and Sterling	- - - - -	\$181,435,841.63
Funded Debt—(Secured by Trust Deeds)—		
The Rio de Janeiro Tramway, Light and Power Company, Limited—		
Five per cent. 50-Year Mortgage Bonds (1st April, 1958)—Balance after Sinking Fund Redemptions (£2,809,087)	- - - - -	\$13,670,889.30
Five per cent. 22-Year Bonds (1st October, 1950) (£271,334) Unsecured	- - - - -	1,320,493.35
\$ 14,991,382.65		
The São Paulo Tramway, Light and Power Company, Limited—		
Five per cent. Perpetual Consolidated Debenture Stock (£321,917)	- - - - -	3,999,996.05
São Paulo Electric Company, Limited—		
Five per cent. 50-Year First Mortgage Bonds (1st January, 1962) (£2,000,000)	- - - - -	9,733,333.33
28,724,712.03		
In addition, there are bonds outstanding, chiefly in sterling, of companies owned or controlled by a subsidiary company, equivalent to \$6,824,720 at par of exchange, on which the interest and sinking fund charges for the year amounting to \$325,988 are provided out of the revenue of the subsidiary company.		
Note—The Funded Debt which is expressed in sterling is taken for the purposes of this balance sheet in United States dollars at par of exchange.		
Current Liabilities—		
Sundry Creditors	- - - - -	\$ 17,009,156.63
This includes \$5,365,853.65 representing the dollar equivalent of the amount at which the liability in Cruzeiros of the Subsidiary Companies for Brazilian Income Taxes for the years 1930 to 1939 inclusive has been finally determined and liquidated in accordance with a formal agreement with the Brazilian Government dated 10th Feb. 1943. This liability is secured by the deposit in Brazil of Bonds and Cash, such assets being included in Sundry Debtors and Debit Balances above.		
Bond, Debenture and Share Warrant Coupons and Dividend Cheques outstanding	- - - - -	3,706,408.46
Accrued Charges on Funded Debt	- - - - -	346,099.18
Credit Balances (Provisions for Contingencies and Insurance Funds for Injuries and Damages)	- - - - -	5,253,972.12
26,315,636.39		
Reserves—		
*Provisions for Depreciation and Renewals (balance after meeting renewals to date)	- - - - -	\$91,362,235.77
Sinking Fund Reserves	- - - - -	12,840,911.42
General Amortization Reserves	- - - - -	23,494,539.00
General Reserves	- - - - -	10,940,058.37
\$138,637,744.56		
Profit and Loss—Balance 31st December, 1942—		
Brazilian Traction, Light and Power Company, Limited	- - - - -	19,464,930.37
158,102,674.93		

*This Reserve includes Provision for Depreciation and Renewals of physical assets of companies owned or controlled by subsidiary companies.

On behalf of the Board:
H. H. COUZENS,
WALTER GOW, } Directors.

BRAZILIAN TRACTION, LIGHT

PROFIT AND LOSS ACCOUNT for the year ended 31st December, 1942. Expressed in terms of United States Currency.

Revenue from operating companies including interest on advances after payment of or provision for all their charges and expenses including depreciation, bond and debenture interest and sinking funds - - - - -	\$16,449,015.61	
Interest on temporary investments - - - - - \$	104,206.00	
Miscellaneous income - - - - -	75,243.81	179,449.81
		<u>\$16,628,465.42</u>
General and administration expenses (including \$19,707.88 covering remuneration of counsel, solicitors and legal advisers and executive officers of Brazilian Traction, Light and Power Company, Limited) - - - - - \$	262,375.90	
Provision for general amortization - - - - -	300,000.00	562,375.90
		<u><u>\$16,066,089.52</u></u>

Note—

Remuneration of Directors including payments by subsidiary companies (excluding executive officers) \$43,891.26.

Remuneration of counsel, solicitors and legal advisers and executive officers in Brazil and elsewhere of subsidiary and associated operating companies \$394,743.68.

ND POWER COMPANY, LIMITED.

PROFIT AND LOSS SURPLUS ACCOUNT, 31st December, 1942.

Expressed in terms of United States Currency.

Balance, 31st December, 1941	- - - - -	\$44,814,369.29
Transferred from Profit and Loss Account	- -	\$16,066,089.52
Less Dividends:		
Preference Shares—paid in Canadian funds \$23,604.00—		
Equivalent in United States dollars	- - - - - \$	21,479.64
Ordinary Shares—paid in Canadian funds—		
40 cents per share		
18th July 1942	-	\$2,810,564.44
60 cents per share		
15th Dec. 1942	-	4,215,862.81
		<u>\$7,026,427.25</u>
Equivalent in United States dollars	- - - - -	6,394,048.80
		6,415,528.44
		<u>9,650,561.08</u>
		\$54,464,930.37
Transferred to General Reserve Account	- - - - -	35,000,000.00
Balance 31st December, 1942	- - - - -	<u>\$19,464,930.37</u>

STATISTICS OF COMBINED COMPANIES.

TRACTION

SERVICE	1938.	1939.	1940.	1941.	1942.
<i>Tramways:</i>					
Total Track (miles) - - - - -	540.88	536.74	534.13	531.50	529.74
Rolling Stock:					
Passenger Cars - - - - -	2,042	2,039	2,042	2,044	2,046
Freight and Service Cars - - - - -	298	283	283	283	279
<i>Funicular Railway:</i>					
Total Track (miles) - - - - -	2.56	2.56	2.56	2.56	2.56
Rolling Stock:					
Electric Locomotives - - - - -	4	4	4	4	4
Passenger Cars - - - - -	4	4	4	4	4
Freight and Service Cars - - - - -	2	2	2	2	2
<i>Steam Railway (Cubatão):</i>					
Total Track (miles) - - - - -	13.20	13.20	13.20	13.20	13.20
Rolling Stock:					
Steam Locomotives - - - - -	3	3	3	3	3
Passenger Cars - - - - -	2	2	2	2	2
Freight and Service Cars - - - - -	42	42	42	42	42
<i>Buses:</i>					
Route (miles) - - - - -	161.55	161.08	161.08	161.70	121.34
Number of Buses - - - - -	149	149	149	143	142
<i>Car Miles Run:</i>					
Tramways - - - - -	73,425,567	74,718,946	73,784,344	73,187,032	74,699,318
Funicular Railway - - - - -	17,273	17,757	16,330	15,152	15,091
Buses - - - - -	7,582,936	7,426,738	7,153,115	6,957,261	5,782,266
Total - - - - -	81,025,776	82,163,441	80,953,789	80,159,445	80,496,675
Total Passengers Carried - - - - -	931,474,961	978,561,798	1,024,933,081	1,070,737,408	1,160,506,565

ELECTRIC LIGHT AND POWER

Kilowatt Hours Sold - - - - -	1,462,587,889	1,555,197,493	1,658,197,427	1,816,992,420	1,984,507,419
Capacity of Generating Plants (K.W.) - - - - -	524,484	524,484	554,234	556,509	591,509
Total Connected Load (K.W.) - - - - -	1,047,456	1,121,011	1,202,809	1,236,890	1,392,522
Total Consumers - - - - -	500,551	532,003	561,868	591,935	622,051
Transmission Lines (miles of circuit) - - - - -	1,977.69	2,059.08	2,009.92	2,052.26	2,082.92
Distribution Lines (miles of wire) - - - - -	26,319.31	27,786.91	29,733.08	31,063.13	32,066.90

GAS

Gas Sold (cubic metres) - - - - -	137,460,964	144,480,023	157,945,279	161,620,413	144,082,607
Total Consumers - - - - -	127,462	138,359	148,503	158,191	162,745
Mains Laid (miles) - - - - -	1,158.71	1,176.68	1,197.99	1,227.64	1,233.17
Stoves, Water Heaters and Other Appliances - - - - -	171,615	176,647	180,772	184,787	185,691

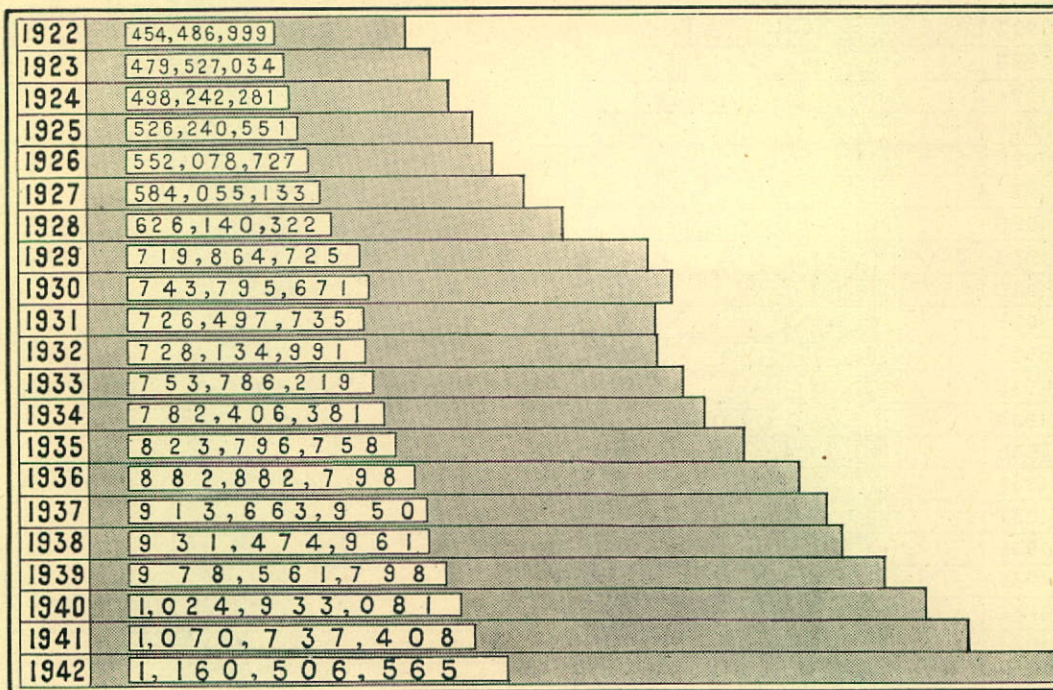
WATER

Water Sold (cubic metres) - - - - -	11,652,484	12,213,149	12,476,117	12,609,857	12,533,660
Total Consumers - - - - -	21,786	22,651	23,493	24,205	23,497
Trunk Mains Laid (miles) - - - - -	38.68	37.84	38.05	37.86	37.91
Distribution Mains Laid (miles) - - - - -	249.91	254.10	258.89	262.60	265.95

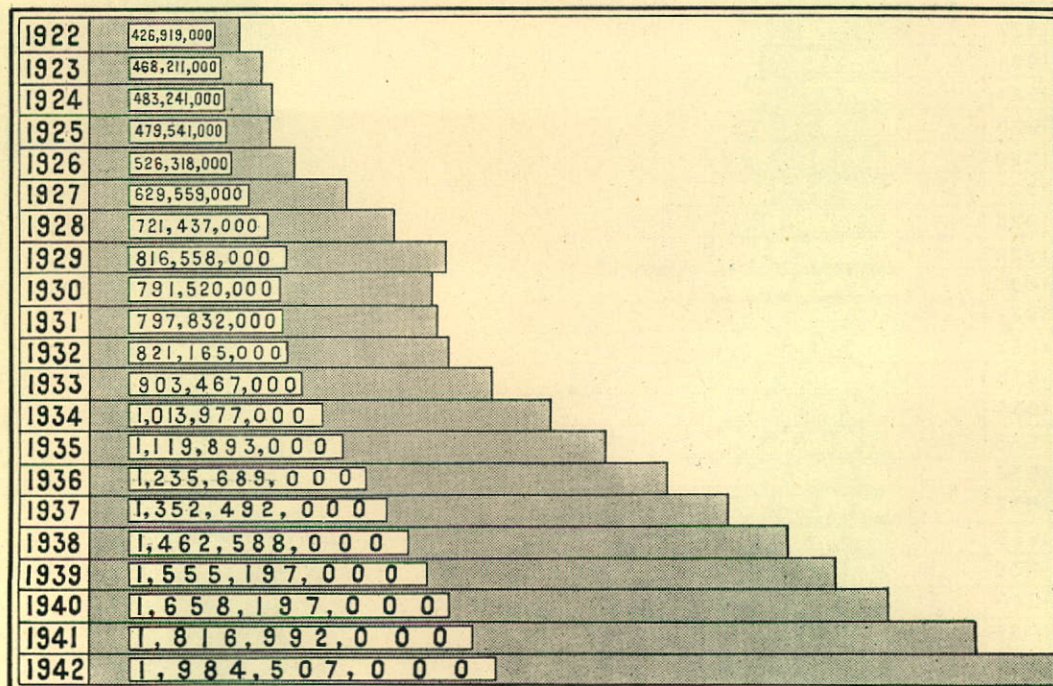
TELEPHONES

Total Number of Telephones in Service - - - - -	195,367	208,633	224,069	244,993	261,549
Average Daily Calls - - - - -	3,356,967	3,886,307	4,044,246	4,242,847	4,432,723
Wire Strung (miles) - - - - -	1,007,380	1,060,133	1,122,905	1,166,838	1,218,008
Pole Lines (miles) - - - - -	6,857	7,231	7,477	7,439	7,683

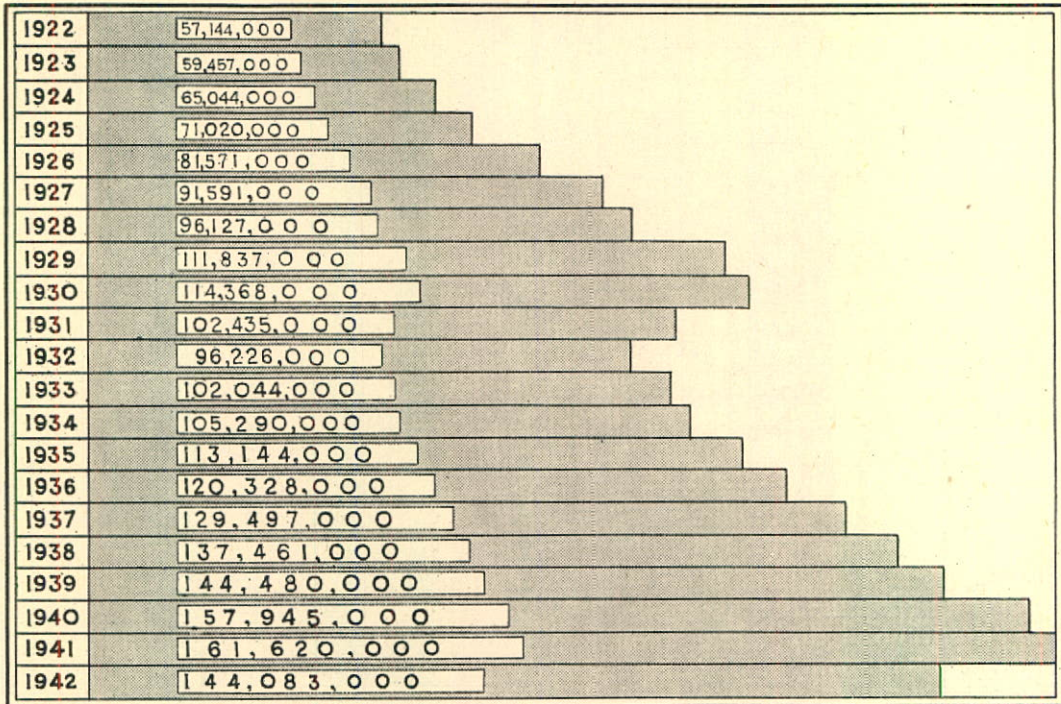
TRACTION SERVICES — PASSENGERS CARRIED



SALES OF ELECTRICAL ENERGY — K.W.Hrs.



GAS SALES-CUBIC METRES



NUMBER OF TELEPHONES IN SERVICE

